

# HOUSE BILL REPORT

## HB 1680

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### As Reported by House Committee On: Capital Budget

**Title:** An act relating to local government infrastructure funding.

**Brief Description:** Concerning local government infrastructure funding.

**Sponsors:** Representatives Doglio, Chapman, Peterson, DeBolt, Appleton, Volz, Gregerson, Stokesbary, Pollet, Rude, Riccelli, MacEwen, Macri, Jenkin and Valdez.

#### **Brief History:**

##### **Committee Activity:**

Capital Budget: 2/19/19, 2/26/19 [DPS].

#### **Brief Summary of Substitute Bill**

- Defines "natural or green infrastructure" and specifies that public works projects may include natural or green infrastructure.
- Allows for up to 1 percent of the biennial capital budget appropriation for the Public Works Board to be used for value-planning grants.
- Ends the deposit of 4.1 percent of the Real Estate Excise Tax (REET) into the Education Legacy Trust Account in fiscal year 2019, rather than fiscal year 2023.
- Prioritizes the 4.1 percent of REET that is deposited into the Public Works Assistance Account, from the 2019-21 through the 2021-23 bienniums, for infrastructure projects that support housing development.

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### HOUSE COMMITTEE ON CAPITAL BUDGET

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Tharinger, Chair; Doglio, Vice Chair; Peterson, Vice Chair; Callan, Davis, Leavitt, Lekanoff, Morgan, Riccelli, Santos, Sells and Stonier.

**Minority Report:** Do not pass. Signed by 8 members: Representatives Steele, Assistant Ranking Minority Member; Corry, Dye, Eslick, Gildon, Irwin, Maycumber and Walsh.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Minority Report:** Without recommendation. Signed by 3 members: Representatives DeBolt, Ranking Minority Member; Smith, Assistant Ranking Minority Member; Jenkin.

**Staff:** Melissa Palmer (786-7388).

**Background:**

Public Works Board.

The Public Works Board (Board) may make low-interest loans or grants from the Public Works Assistance Account (PWAA) to finance the acquisition, construction, repair, replacement, or improvement of the following local public works: bridges, streets, and roads; water systems; storm and sanitary sewage systems; and solid waste facilities, including recycling and lead pipes in drinking water systems. For up to a maximum of 20 percent of the biennial PWAA capital budget appropriation, the Board may make loans or grants for preconstruction, emergency, and capital facilities planning. Up to 10 percent of the PWAA capital budget appropriation may be provided for grants. Local governments and special purpose districts, except port and school districts, are eligible to apply for loans from the PWAA. The Board may provide technical assistance. The Board may require a local government to provide a long-term financial plan for maintenance and loan repayments, and undergo value planning at the predesign stage. Existing debt or financial obligations may not be refinanced.

Public Works Board Membership.

The Board is staffed by the Department of Commerce and includes 13 voting members appointed by the Governor: two elected officials and one public works manager representing cities; two elected officials and one public works manager representing counties; three members representing public utility and water-sewer districts; and four members representing the general public.

Public Works Assistance Account.

The PWAA was established in 1985 to encourage local government self-reliance in meeting public works needs and to assist in financing critical infrastructure projects. Moneys in the PWAA must be used to make loans and give financial guarantees and may also be appropriated to provide state match for federal dollars. Loan repayments and revenues from three tax sources have historically been deposited into the PWAA. However, in recent biennia, there have not been projects funded with the PWAA. Repayments and tax revenues have been transferred to the State General Fund or Education Legacy Trust Account in prior biennia. The Refuse (Solid Waste) Tax, 4.1 percent of the Real Estate Excise Tax (REET), and the portion of the Public Utilities Tax, all of which were historically deposited into the PWAA, are deposited into the Education Legacy Trust Account through fiscal year 2023. In the 2017-19 biennium, the Board projects were funded with general obligation bonds.

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**Summary of Substitute Bill:**

Public works projects may include natural or green infrastructure measures that complement the project and demonstrate enhanced life-cycle cost or performance gains. Natural or green

infrastructure are projects that utilize systems and practices that use or mimic natural processes to infiltrate, evapotranspire, or reuse stormwater or runoff on the site where it is generated including, but not limited to, water retention ponds, rain gardens, and vegetated swales. Value planning, which occurs at the predesign stage, must address innovation, affordability, environmental performance, and local economic development.

In addition to the 10 percent maximum that may be provided for grants, up to 1 percent of the Board's biennial capital budget appropriation may be used for grants for the purpose of value planning. The grant may be up to \$60,000 per project.

From the 2019-21 biennium through the 2021-23 biennium, the 4.1 percent of the REET that is collected and deposited into the PWAA must be prioritized for infrastructure projects in support of housing development.

The 4.1 percent deposit of REET into the Education Legacy Trust Account is ended on June 30, 2019, instead of June 30, 2023. The 4.1 percent is deposited into the PWAA and is prioritized for infrastructure projects in support of housing development.

**Substitute Bill Compared to Original Bill:**

The substitute bill defines "natural or green infrastructure" as projects that utilize systems and practices that use or mimic natural processes to infiltrate, evapotranspire, or reuse stormwater or runoff on the site where it is generated including, but not limited to, water retention ponds, rain gardens, and vegetated swales.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect on July 1, 2019.

**Staff Summary of Public Testimony:**

(In support) There are few things more basic that the government provides than wastewater, drinking water, road, and infrastructure systems. Washington is fortunate to have a great structure in the Board, which has been helping fund local government projects. This bill would direct money to the infrastructure systems as a way to address the housing crisis. By providing money upfront during the value-planning process, we can save tax dollars and build better infrastructure. Washington has satisfied the court for the purpose of education. It is time to end the diversion of the REET now, rather than in 2023. The revenues were redirected for a good cause, but it is now time to address infrastructure needs. Education can be supported with property taxes, rather than REET funds. Redirecting the REET will allow infrastructure projects that support housing to move forward. The REET has been a main source of funding for the Board projects. In many cases, the cost to upgrade or extend infrastructure means that developers do not proceed. When this diversion

first began, it was estimated to total \$114 million, however the amount diverted has already totaled \$175 million. The housing crisis justifies bringing back the funds early. Without this revenue, this program is not sustainable as a revolving loan fund.

There was a 2019 report card that assessed the state's infrastructure as an average of a C. Not all infrastructure was graded the same, for example, roads were a C-minus, stormwater a D-plus, and waste water a C-minus. Infrastructure requires sufficient investment and thoughtful planning into the future. The state has taken recent measures, such as with the Connecting Washington package. However, additional steps must be taken, including the restoration of the PWAA. These funds provide a valuable source of low-cost infrastructure funding. These funds should be used to modernize infrastructure rather than be used elsewhere in the state budget. These project support construction jobs, which pay on average 12 percent more than other jobs. Both market rate and affordable housing can benefit from this investment. A lack of investment in infrastructure is preventing both market rate and affordable housing developments. Many of the infrastructure projects that would be supported by the return of the REET are served by water and sewer districts. Projects that are funded through the PWAA have a lower cost of borrowing, and because these infrastructure systems are supported by rate payers, PWAA funding reduces the amounts that are supported by rate payers.

(Opposed) None.

**Persons Testifying:** Representative Doglio, prime sponsor; Carl Schroeder, Association of Washington Cities; Jeanette McKague, Washington Realtors; Scott Hutsell and Scott Hazelgrove, Washington Association of Sewer and Water Districts; Jane Wall, Washington State Association of Counties; and Jason Gauthier, Tacoma/Pierce County Habitat for Humanity.

**Persons Signed In To Testify But Not Testifying:** None.